

Message Text

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TAGS: EGEN, ETRA, CA

SUBJECT: COMMERCE SECRETARY KREPS' MEETING WITH IT AND C
MINISTER CHRETIEN

1. SUMMARY: SUBSTANTIVE MEETING BETWEEN U.S. SECRETARY
OF COMMERCE KREPS AND CANADIAN MINISTER OF INDUSTRY, TRADE
AND COMMERCE CHRETIEN TOOK PLACE MARCH 29 IN FRANK AND
GENERALLY CONSTRUCTIVE ATMOSPHERE. HIGHLIGHTS OF POINTS
RAISED BY BOTH SIDES ARE SUMMARIZED IN THIS TELEGRAM.
ISSUES DISCUSSED INCLUDED: CANADIAN CONCERN OVER U.S.
CONVENTION TAX LEGISLATION; CANADA'S ARTICLE XIX ACTIONS ON
TEXTILES AND APPAREL AND THE IMPLICATIONS OF THESE ACTIONS
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FOR MFA RENEWAL; THE AUTOMOTIVE AGREEMENT AND PARALLEL
STUDIES; AND U.S. AND CANADIAN ATTITUDES AND POLICIES WITH
RESPECT TO ARAB BOYCOTT AND ILLICIT CORPORATE PAYMENTS.
THERE WAS NO DISCUSSION OF U.S. TARIFFS ON PETROCHEMICALS
DURING COMMERCE MEETING. BOTH U.S. AND CANADIAN PARTICI-
PANTS INDICATED MEETING WAS USEFUL. END SUMMARY.

2. MINISTER CHRETIEN BEGAN SUBSTANTIVE DISCUSSIONS BY RAISING CONVENTION TAX ISSUE AND PROBLEMS THIS WAS CAUSING CANADA WHICH ALREADY HAD A 700 MILLION DOLLAR DEFICIT WITH U.S. IN TRAVEL ACCOUNT. DAS KATZ INITIALLY RESPONDED THAT PROBLEM IS SOMEWHAT ANALOGOUS TO C-58 BROADCASTING

PROVISIONS BUT THAT IN ANY CASE WE MIGHT HAVE A PROBLEM WITH MODIFYING CONVENTION LAW IN SUCH A WAY THAT IT WOULD BE APPLIED IN A DISCRIMINATORY MANNER. CANADIANS PROTESTED ANALOGY WITH C-58 ON GROUNDS THAT LATTER IS INTEGRAL PART OF CULTURAL POLICY. COMMERCE OFFICIALS THEN SAID THAT ASSUMING THE CONVENTION TAX PROBLEM WAS APPROACHED SEPARATELY FROM C-58, WE WOULD STILL NEED DETAILED QUANTITATIVE DATA ON THE LAW'S DAMAGE TO CANADIAN INTERESTS BEFORE WE COULD APPROACH CONGRESS. IN ANY EVENT, IT WOULD LIKELY BE SOME TIME BEFORE CONGRESS WOULD RETURN TO CONSIDERATION OF TAX ISSUES LIKE THIS.

3. DAS SHEPHERD, WHO HAD RECENTLY RETURNED FROM MFA TALKS IN GENEVA, SAID THAT RECENT CANADIAN ACTIONS ON TEXTILES AND APPAREL AND CANADA'S POSITION ON THE MFA WERE SO EXTREME THAT CANADA APPEARED TO BE CUTTING ITSELF OUT OF PARTICIPATION IN A RENEWED MFA. ON THE ARTICLE XIX QUESTION THE U.S. FEELS THAT CANADA'S UNWILLINGNESS TO BE FORTHCOMING ON THE ISSUE OF COMPENSATION COULD LEAD US TO CONSIDER RETALIATION.

4. MINISTER CHRETIEN RESPONDED THAT CANADA HAD BEEN "TAKEN FOR A RIDE" ON THE MFA AND THAT THE SITUATION WITH CONFIDENTIAL

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IMPORTS OF TEXTILES AND APPAREL INTO CANADA HAD BECOME SO SERIOUS AS TO LEAVE HIM NO CHOICE BUT TO IMPOSE QUOTAS. CHRETIEN EXPLAINED THAT UNEMPLOYMENT IN CANADA IS SERIOUS, AND ALTHOUGH THEY WANT TO NEGOTIATE A NEW MFA, THE BASE PERIOD DETERMINATION MUST BE REVISED TO ENABLE CANADA TO USE AN EARLIER BASE YEAR. LATIMER ADDED THAT THE SITUATION IN CANADA HAD GOTTEN OUT OF CONTROL, AND SINCE THE GOC IS NOT PREPARED TO WRITE OFF THE TEXTILE INDUSTRY, IT HAS TO HAVE CHANGES IN THE MFA. ASSISTANT SECRETARY JASINOWSKI QUESTIONED WHY BILATERAL RESTRAINT NEGOTIATIONS HADN'T TAKEN CARE OF THE DANGER OF LOW COSTS IMPORTS. CANADIANS RESPONDED THAT THEY LACKED THE INFLUENCE WHICH HAD BEEN USED BY THE U.S. IN NEGOTIATING MFA DEALS. JASINOWSKI COUNTERED THAT THE QUOTAS IMPOSED IN 1976 COULD LIKELY BE USED AS A BARGAINING CHIP IN NEW CANADIAN EFFORTS TO APPROACH THE FAR EAST COUNTRIES ON LIMITING IMPORTS.

5. CHRETIEN SAID THAT WHILE THE GOC BELIEVES THE AUTOMO-

TIVE AGREEMENT IS A BASICALLY GOOD ARRANGEMENT, CANADA HAS BEEN RUNNING A CONSISTENT TRADE DEFICIT, AND THAT HE WANTED TO DISPEL THE U.S. MISCONCEPTION THAT THE PACT HAS BEEN GOOD ONLY FOR CANADA. INSTEAD, CHRETIEN MAINTAINED, THE AGREEMENT HAS BENEFITTED THE U.S. WHILE HE SAW NO NEED TO REOPEN THE DEBATE NOW, WE SHOULD WATCH THE SITUATION CLOSELY SO IT DOES NOT BECOME A MAJOR IRRITANT IN THE FUTURE.

6. SECRETARY KREPS SAID THAT WE ARE AWARE OF THE CANADIAN DEFICIT BUT HAD EXPECTED THAT IT WOULD GRADUALLY DISAPPEAR AS THE U.S. ECONOMY REBOUNDED. ALTHOUGH THERE ARE GROUPS IN BOTH COUNTRIES WHO WOULD DOUBTLESS LIKE TO SEEK CHANGES IN THE OPERATION OF THE AGREEMENT, THE SECRETARY SAID THAT THE PARALLEL AUTOMOTIVE STUDIES HAVE SERVED TO CONTAIN SUCH PRESSURES. NOW THE U.S. IS CONCERNED THAT THE RELEASE OF THE CURRENT CANADIAN STUDY COULD SERVE TO REOPEN THE ISSUE.

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7. MINISTER CHRETIEN RESPONDED THAT THE "ARTHUR REPORTS" WILL IN ANY CASE BE PUBLIC KNOWLEDGE SOON. SINCE THEY COVER THE WHOLE SPECTRUM OF THE CANADIAN INDUSTRY AND ARE NOT OVERLY FOCUSED ON THE PARTS PROBLEM ARE UNLIKELY TO CAUSE MUCH OF A PROBLEM. WHEN JASINOWSKI QUERIED THE CANADIANS AS TO WHAT THEY SEE AS A USEFUL FOLLOWUP TO THE STUDIES, LATIMER RESPONDED THAT THE GOC FEELS THAT BOTH SIDES SHOULD NOW CONSIDER WHERE OUR AGREED CONCLUSIONS LEAVE US. COMMERCE OFFICIALS INDICATED THAT MORE ANALYSIS AT THE STAFF LEVEL WOULD BE DESIRABLE PRIOR TO ANOTHER HIGH-LEVEL DISCUSSION OF THE ISSUE.

8. DAS KATZ SAID THAT THE USG FEELS IT IMPORTANT FOR THE GOC TO REALIZE THAT WE BELIEVE THE AGREEMENT HAS BEEN BENEFICIAL TO BOTH COUNTRIES AND THAT WE HARBOR NO MISCONCEPTIONS ABOUT ITS BENEFITTING ONLY CANADA. SECRETARY KREPS ADDED THAT SHE FEELS IT WOULD BE UNDESIRABLE FOR BOTH COUNTRIES TO DEPART FROM A GOOD ARRANGEMENT AND LAPSE INTO DAMAGING RECRIMINATIONS.

9. THE SECRETARY ASKED MINISTER CHRETIEN WHAT CANADIAN POLICIES HAVE BEEN WITH RESPECT TO THE ARAB BOYCOTT OF ISRAEL. CHRETIEN REPLIED BY DETAILING CANADIAN ACTIONS TO DATE BUT ADDED THAT THE GOC IS FEARFUL OF LOSING LARGE AMOUNTS OF ITS EXPORT SALES TO ARAB LEAGUE COUNTRIES IF IT ENACTS STRONGER POLICIES. THE BASIC PROBLEM ACCORDING TO CHRETIEN IS THAT CANADA DOES NOT HAVE THE KIND OF LEVERAGE THE U.S. POSSESSES IN ITS DEALINGS WITH THE ARABS BECAUSE OF U.S. ARMS SALES TO THESE COUNTRIES. THE MINISTER ASKED WHERE THE USG IS HEADING ON THE BOYCOTT

AND WHETHER THE U.S. IS WORRIED ABOUT LOSING EXPORT SALES.

10. SECRETARY KREPS ANSWERED THAT IT LOOKS AS THOUGH WE WILL SOON HAVE VERY STRONG ANTI-BOYCOTT LEGISLATION IN THE U.S. AND THAT WE WILL LIKELY LOSE A SUBSTANTIAL AMOUNT OF CONFIDENTIAL

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TRADE AS A RESULT. ALTHOUGH SOME PROPONENTS OF STRONG LEGISLATION BELIEVE THAT THE ARABS WILL BACK DOWN IN THE FACE OF SUCH U.S. ACTION, HER PERSONAL VIEW IS THAT THEY WILL NOT. FURTHER, THE U.S., LIKE CANADA, ALSO LACKS

LEVERAGE SINCE EUROPEAN NATIONS CAN EASILY REPLICATE THE TYPE OF PRODUCTS THE U.S. CURRENTLY SELLS TO ARAB LEAGUE COUNTRIES.

11. ON THE CORPORATE BRIBERY PROBLEM THE MINISTER POINTED OUT THAT ESTABLISHED CANADIAN GUIDELINES ON SUCH PRACTICES RECOGNIZE THAT SOME PAYMENTS TO FOREIGN AGENTS ARE NECESSARY BUT THAT THE GOC STILL HAS DIFFICULTIES IN DECIDING HOW MUCH OF A PAYMENT TO ALLOW.

12. SECRETARY KREPS ENDED THE MEETING BY OBSERVING THAT IT WOULD BE USEFUL TO KEEP IN TOUCH WITH MINISTER CHRETIEN ON BROAD POLICY QUESTIONS OF INTEREST TO BOTH COUNTRIES. THE MINISTER AGREED AND INVITED THE SECRETARY TO VISIT HIM IN OTTAWA AT HER CONVENIENCE.
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